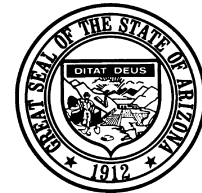


ARIZONA TAX NEWS



Jane Dee Hull, Governor

Mark Killian, Director

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You Can Help Reduce Processing Costs

Each year the Arizona Department of Revenue receives over 40,000 withholding payments that do not have a withholding tax identification number associated with them, rather they are identified with "applied for" on the accompanying A1-QRT (Arizona Quarterly Withholding Return). Typically this happens after the first employees are hired and the business has not yet registered for a withholding tax identification number.

When the Department of Revenue receives an "applied for", the payment is credited to a general account and a letter is sent to the address on the return requesting the taxpayer claim the payment by providing a valid withholding identification number. As a result of the letter, 60% of the "applied for" payments are resolved this way.

Another 20%-35% of "applied for" returns are resolved by a team of DOR employees who match the dollar amount of the payment to the amount claimed on the employers quarterly report (A1-QRT). The remainder of "applied for" returns that cannot be matched stay in the general account until the taxpayer claims them, usually after the collections department has sent delinquent notices and or made phone calls to the taxpayer requesting payment.

The "applied for" return is costly and time consuming for both the taxpayer and the Department of Revenue. And can easily be avoided by submitting the 1st return and payment with a license application or by providing the withholding identification number with the return.

New Arizona Form 5000

In a continuing effort to reduce printing costs and increase customer service, the Department of Revenue unveils a new Transaction Privilege Tax Exemption form; Arizona Form 5000.

By combining the three forms, the Form 5000 not only replaces the previous version, but also Forms 5001 and 5002.

The new Form 5000 is designed to be easier to read and understand. The new Form 5000 costs less to print and store since the entire form is on one sheet of paper instead of the five sheets needed for 5000, 5001 and 5002.

About a year ago the Assistant Director of Taxpayer Support division, Marquette White, challenged her employees to revise the TPT Exemption forms. A committee was formed that included the License & Registration, Community Outreach &

Education and Taxpayer Information & Assistance sections. While there were no real substantive changes made, the committee completely revised Form 5000's layout. After the initial revisions were made, Tax Research and Analysis reviewed the new form to insure it's compliance with the Transaction Privilege Tax Statutes in Title 42 of Arizona Revised Statutes. And finally, DOR's Uniformity Committee reviewed the new form to insure it met the requirements of the divisions affected by the changes.

How best can the Department of Revenue improve it's forms? The department is seeking input on this subject. Please submit any ideas to Tony Manzo, Community Outreach & Education 1600 West Monroe, Phoenix, AZ 85007, or fax them to his attention at (602) 364-0085. Thank You for your help.

We're on the Web!

The Arizona Tax News can be downloaded by accessing our Internet webpage

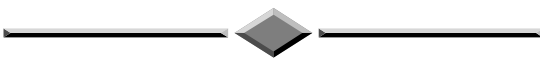
www.revenue.state.az.us

Arizona Department of Revenue Mission Statement

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

April 1st 2000 Interest Rates

The Internal Revenue Service announced interest rates for the calendar quarter beginning on April 1, 2000. On March 7, 2000, the overpayments and underpayments will both rise to 9 percent (9%). Therefore, the Arizona Department of Revenue will also raise it's interest rate for overpayments and underpayments to 9 percent (9%). In both cases the rate is one percentage point greater than they were for the first calendar quarter of 2000. Under the Tax Reform Act of 1986, the rate of interest is determined on a quarterly basis. The overpayment/underpayment rates are now the same as we have conformed to 1999 I.R.C., passed during the 1999 Legislative Session.

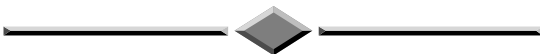


Summary of General Fund Revenues

	<u>January 2000</u>	<u>Fiscal Year Total</u>
Individual Income Tax		
Net Collections	\$275,817,490	\$1,255,960,053
Percent Change *	11.7%	5.2%
Corporate Income Tax		
Net Collections	\$21,955,175	\$263,356,326
Percent Change *	(11.4%)	3.1%
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$269,981,661	\$1,633,808,998
Percent Change *	11.5%	10.1%
Total Big Three Tax Types		
Net Collections	\$567,754,326	\$3,153,125,377
Percent Change *	10.5%	7.5%

() Decrease from same month last year.

* Percent change from same month last year.



****Attention****

*Social Security numbers are no longer printed on the return label provided by the Department of Revenue.
Be sure to include Social Security numbers on your client's return.*

TAX CALENDAR

May 2000

Due Date			For Period Ending
15	Income Tax Returns:	FYE	1/31/00
	Form 120: Corporation		
	Form 140: Individual		
	Form 141: Fiduciary		
	Form 165: Partnership		
15	Form 120: Corporation with Automatic Extension	FYE	7/31/99
15	Form 120S: S Corporation	FYE	2/29/00
15	Form 99: Exempt Organization Annual Information Return	FYE	12/31/99
	Form 99T: Exempt Organization		12/31/99
15	Form 120ES: Estimated Tax Payment, Corporation		
	First Installment	FYE	1/31/01
	Second Installment	FYE	11/30/00
	Third Installment	FYE	8/31/00
	Fourth Installment	FYE	5/31/00
22	Form TPT-1: Transaction Privilege Tax: April Monthly Filers		4/30/00
22	Bingo: Financial Reports		4/30/00
22	Luxury Tax: Various Forms		4/30/00
25	EFT Form TPT-1 and Payment: Transaction Privilege Tax: April Monthly Filers		4/30/00
29	State Holiday Memorial Day	All State Offices Closed	

Withholding Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

*****REMINDER*****

FOR NON-EFT TPT FILERS

To avoid a delinquency, postmark your April 2000 TPT return no later than the 25th of the month or deliver to DOR no later than May 30, 2000.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from the Community Outreach & Education Section, 1600 W. Monroe, 8th floor, Phoenix, AZ 85007, or call Tony Manzo (602) 542-3062.

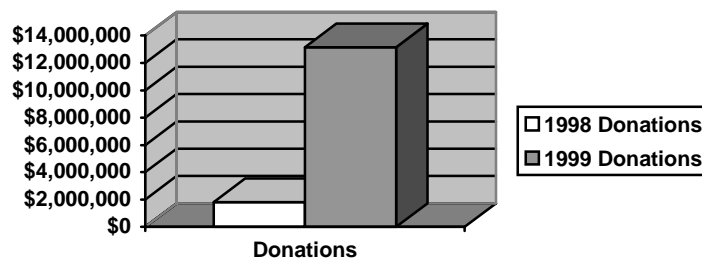
Private School Tuition Organization Tax Credit Court Challenge Update

In 1997, the Arizona legislature enacted a law that allows a dollar-for-dollar state income tax credit of up to \$500 for those who donate to school tuition organizations (STOs) during tax years beginning from and after December 31, 1997. See A.R.S. § 43-1089. This credit is commonly known as the private school income tax credit because the STOs must direct 90 percent of its revenues for educational scholarships or tuition grants to children in order to allow them to attend non-governmental primary or secondary schools of their parents' choice. On October 4, 1999, the United States Supreme Court refused to consider the appeal of the Arizona Supreme Court case that upheld the constitutionality of the credit. See *Kotterman v. Killian*, 193 Ariz. 273, 972 P.2d 606 (1999), cert. denied *Rhodes v. Killian*, 145 L.Ed.2d 237, 67 USLW 3671 (1999). Although the Arizona Supreme Court case upholding the credit is final, other plaintiffs have filed a suit challenging the credit in the United States District Court for the District of Arizona. *Winn et. al. v. Killian*, Docket No. CIV00-0287PHXEHC (D. Ariz.). In the complaint, plaintiffs allege that the credit, on its face and as applied, violates the First and Fourteenth Amendments of the U.S. Constitution. **If this suit is successful in challenging the constitutionality of the credit provision, it may effect the validity of credits that have been claimed prior to that determination. The likelihood of a successful constitutional challenge and the results thereof are indeterminable at this time.**

Statistics on the Private School Tuition Organization Tax Credit



The graph below shows donations received by private school tuition organizations that have reported to the Arizona Department of Revenue, for calendar year 1999 and tuition organizations of which we are aware. There may be other organizations in existence in Arizona that have not contacted the Arizona Department of Revenue. As additional information is received new reports will be released. Twenty-eight private school tuition organizations reported donations for calendar year 1999 from 30,602 persons, totaling \$13.2 million. Fifteen organizations received donations in calendar year 1998 from 4,247 persons, totaling \$1.8 million. The court challenge overshadowing the credit throughout calendar year 1998 and the newness of the program in year 1998 both served to suppress the level of donations in 1998.



Explanatory Notice for Tax Rulings issued by the Arizona Department of Revenue

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law that are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement that provides interpretation, detail, or supplementary information concerning application of the law. Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling. See GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.

All rulings and procedures issued by the Arizona Department of Revenue are available in full text on the Internet at: www.revenue.state.az.us

ARIZONA USE TAX RULING UTR 00-1

ISSUE:

A purchaser's potential tax liability resulting from a purchase of tangible personal property from an in-state vendor.

RULING:

1. A purchaser's factual misrepresentation within a Departmental Certificate which, if true, would entitle the vendor to the claimed transaction privilege tax deduction, will subject the purchaser to the 5009 Amount pursuant to A.R.S. § 42-5009(D).

2. Prior to August 6, 1999, a purchaser's factual misrepresentation which, if true, would entitle the in-state vendor to the claimed deduction, made in any manner other than a Departmental Certificate, will subject the purchaser to liability for in-state use tax. From and after August 6, 1999, a purchaser's factual misrepresentation which, if true, would entitle the in-state vendor to the claimed deduction, made in any manner other than a Departmental Certificate, will subject the Purchaser to the 5009 Amount.

(Continued on page 4)

(Continued from page 3)

3. If a purchaser makes a true representation to an in-state vendor that the tangible personal property purchased was for resale, but subsequently stores, uses, or consumes the property in this state, then the purchaser is liable for in-state use tax.

4. A purchaser's misrepresentation of law to an in-state vendor at any time or in any manner will not subject the purchaser to an in-state use tax or liability for the transaction privilege tax, interest, and penalties that the vendor would have been liable for had it not relied upon the misrepresentation of laws. If a purchaser makes a misrepresentation to an in-state vendor within a Departmental Certificate, and the vendor had reason to believe that the Departmental Certificate was inaccurate or incomplete, the Department may disregard the Departmental Certificate. If disregarded, the purchaser will not be liable for any amount under A.R.S. § 42-5009(D).

For more information on a vendor's use of exemption certificates to document exemptions from transaction privilege tax see Arizona Transaction Privilege Tax Procedure TPP 00-3.

ARIZONA INDIVIDUAL INCOME TAX PROCEDURE

ITP 00-1

Procedure for Requesting Relief from Joint and Several Liability
(This procedure supersedes ITP 97-3)

1. Application for Relief. A taxpayer's request for innocent spouse relief, relief by separation of liability, or equitable relief must be in writing and must provide sufficient information to establish that the conditions prescribed for the relief requested have been met. Arizona Form 200 "Request for Innocent Spouse Relief And Separation of Liability and Equitable Relief" is provided for this purpose. To apply for relief, the taxpayer should submit a completed Arizona Form 200, together with the necessary information as follows:

- If the taxpayer is meeting with a department employee for an examination, appeal, or collection, the form may be submitted to that employee.
- If the taxpayer receives a department notice of deficiency, the form may be submitted to the department employee named in the notice. (Attach a copy of the notice.)
- In all other situations the form should be submitted to the Arizona Department of Revenue.

When a taxpayer requests relief from joint and several liability, the department is required to notify the taxpayer's spouse or former spouse of the request. The department must also allow the other party to participate in the determination of the amount of relief from liability. Notification will be mailed to the other party's last known address as determined from department records or as shown on the taxpayer's Form 200.

2. Determination by the Department. The Individual Income Tax Audit Section (audit section) will review the taxpayer's Form 200 and determine whether the taxpayer qualifies for innocent spouse relief (A.R.S. § 42-2201) or relief by separation of liability (A.R.S. § 42-2202). The audit section may require the taxpayer to furnish additional information. The audit section may determine that the taxpayer qualifies for full relief from the understatement, that the taxpayer qualifies for partial relief, or that the taxpayer does not qualify for relief.

If the audit section determines that the taxpayer does not qualify for innocent spouse relief or relief by separation of liability, the

audit section will review the taxpayer's Form 200 to determine whether the taxpayer qualifies for equitable relief under A.R.S. § 42-2074. The audit section may require the taxpayer to furnish additional information. Any recommendation by the audit section with respect to equitable relief will be reviewed by an Equitable Relief Review Committee of the department.

The department will notify the taxpayer requesting relief, and the other party, in writing with respect to the department's determination.

3. Review of Unfavorable Determination. A party who disagrees with the determination of the audit section with respect to innocent spouse relief, relief by separation of liability, or equitable relief may petition the department's Hearing Office for a review under A.R.S. § 42-1251. The petition must be in writing and must be submitted within 90 days of the mailing of the audit section's determination.

The Hearing Office may affirm or reverse the audit section's determination, or may remand the request for relief back to the audit section with additional instructions. The Hearing Office will notify the taxpayer requesting relief, and the other party, in writing with respect to the determination on review.

A party who disagrees with a determination of the Hearing Office may appeal the determination to the Director of the Department of Revenue. The Director may also independently determine that a Hearing Office decision requires review. If no appeal is made to the Director within 30 days after the Hearing Office decision is received, and the Director does not independently review the decision, the Hearing Office decision is the final order of the department. If the decision is reviewed by the Director, the Director's decision is the final order of the department. Either party may appeal a final order of the department (whether a Hearing Office decision or a Director's decision) to the State Board of Tax Appeals under A.R.S. § 42-1253.



Employer Potpourri 2000

The Community Outreach and Education section of the Department of Revenue invites employers and tax professionals to attend the Employer Potpourri 2000 seminar. This is a rare opportunity to get comprehensive information from representatives of several

state and federal agencies at one location. You may also be eligible for Continuing Professional Education Credit (CPE). Seminars begin at 8 AM with a no-host lunch and conclude at 5 PM. Information goes beyond the basics – sessions are geared to offer attendees more opportunities to ask questions.

These agencies will be represented:

US Department of Labor, Wage and Hour Division
Social Security Administration
Immigration and Naturalization Service
Internal Revenue Service
Arizona Department of Economic Security,
Child Support Enforcement
Arizona Department of Economic Security,
FUTA – SUTA
Arizona Department of Revenue

Locations

- **Mesa – June 15**, City of Mesa Conference Center, 201 N Center, Palo Verde Ballroom
- **Phoenix – June 19**, Embassy Suites North, 2577 W Greenway
- **Tucson – June 20**, Omni Tucson National Hotel, 2727 W Club Drive

Cost : \$59 per person*

NOTE: REGISTRATION FEES COVER THE COST OF PRINTED MATERIALS.

* NOTE: ALL FEES ARE NON-REFUNDABLE

For additional information about other available seminars, call Community Outreach and Education Section (602) 542-3062 or, toll-free from elsewhere in Arizona, (877) 863-0655.

Congratulations From the Director



Walter Dudley with his wife, Carolynn Holomon, of Dudley and Holomon, Inc.

*"On behalf of myself and my staff at the Arizona Department of Revenue I would like to congratulate **Walter Dudley** for receiving the 1999 'Accountant of the Year' Award. His dedication and hard work over the past years sets a fine example."*

*-Mark Killian
Director*

"I always admired the other accountants who had received NSA's prestigious 'Accountant of the Year' award, I never dreamed that I would be considered one of them and would receive this award. I am greatly honored."

-Walter Dudley

Walter F. Dudley of Phoenix, AZ is the recipient of the 1999 Accountant of the Year Award presented by the National Society of Accountants (NSA) in recognition of service to the accounting profession.

A charter member of the Arizona Society of Practicing Accountants (1976), he has served in a number of positions for the state society, most recently as legislative chair. He was instrumental in the efforts of the Arizona Coalition for Affordable Accounting to work with the State Board of Accountancy and the State Society of CPAs to reach a consensus on Uniform Accountancy Act language acceptable to all parties. Dudley also has served with distinction on many NSA committees, most recently in the area of national affairs and state regulation and oversight. In partnership with his wife, Carolynn Holomon, he has operated Dudley and Holomon, Inc. an accounting and tax business in Phoenix since 1972 that specializes in small to medium size businesses.

